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# Institutional Resilience in a Changing World Economy? The Case of the German Banking and Chemical Industries

*Michael Muller*

## **Abstract**

*This paper examines whether there has been a transformation towards company-specific and unitarist industrial relations in Germany. On the basis of 25 case studies of employment practices in German and foreign-owned banks and chemical firms as well as industry data, the research found that the German system has so far remained relatively stable. Companies in the two industries studied generally still comply with the labour market institutions of multi-employer collective bargaining, workplace representation and initial vocational training. Pressures have been accommodated by changes within the system rather than by a radical change of the system.*

## **1. Introduction**

More than a decade ago, Kochan *et al.* (1986) published their seminal book, *The Transformation of American Industrial Relations*, in which they described the demise of trade unions and collective bargaining and the emergence of a large non-union sector in the United States. Since then similar transformations have been observed in other countries. There has been a search for greater flexibility in the deployment of labour which has partly been achieved by a decentralization of industrial relations. In the process, trade unions have often been marginalized, and there has been a shift from pluralist towards more unitarist industrial relations (Clarke and Bamber 1994; Ferner and Hyman 1992; Locke *et al.* 1995; Ruysseveldt and Visser 1996). As early as the 1950s, a worldwide convergence of managerial practices towards those of the USA was predicted. However, whereas Kerr *et al.*'s (1960) convergence thesis saw technology as the driving force behind convergence, today's transformation of industrial relations and human resource practices seems to be driven more by competition.

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The case of Germany is of particular interest when examining whether there is a convergence towards unitarist industrial relations practices. Its 'institutionally strong' system (Marginson *et al.* 1993) exerts pressures that could prevent such a transformation. German business is embedded in a system of social institutions (Lane 1992) which legally impose a uniform set of arrangements on companies and/or provide incentives for employers to accept institutional constraints. In this system change is achieved by negotiation rather than by a unitary imposition of managerial decisions.

Since the early 1990s, it has been disputed whether the German model can survive in times of increased competitive pressures. The government, employers, the media, academics and foreign observers have questioned the viability of the German model and have suggested that it must be changed. The state has been accused of excess subsidization of ageing industries and of the imposition of too high a tax burden (Smyser 1993). The strong links between banks and industry and the German system of corporate governance as a whole has been criticized (Dunsch 1994). As big German corporations are becoming increasingly dependent on international capital markets, they are under more pressure to comply with Anglo-American financial rules (Goodhart 1994: 52–3). A particular target of demands for change has been centralized collective bargaining. Long before the recent debate about the competitiveness of the German economy, neoclassical German economists put forward the view that the centralized collective bargaining system sets a high minimum wage and restricts flexibility. They pointed out that this is a particular problem for low performing firms, branches or regions as well as for unskilled workers and the unemployed (Hiemenz 1992; Walter 1988). These arguments have been taken up by employers and politicians. (For a critical review of this debate, see Hassel and Schulten 1997.)

Considering the worldwide transformation of employment practices along US lines and the apparent popularity of the US free market model among German economists, employers and politicians, there are likely to be increasing pressures on the three key labour market institutions of centralized collective bargaining, workplace representation and initial vocational training. One could expect that firms operating in Germany would not any more comply with their requirements, as they severely restrict organizational autonomy. This means that companies will avoid collective bargaining; if this is not feasible, they will prefer company level bargaining. Works councils will also be avoided, as they have strong co-determination rights. There will be no compliance with the system of initial vocational training, as it is regulated by a tripartite system that includes the government and trade unions, reduces organizational autonomy and provides general rather than specific skills.

The data reported here are part of a larger study of industrial relations and human resource management in Germany. Case studies of 25 banks and chemical firms as well as the two industries were conducted. This examined not only the case study firm's compliance with German labour market

institutions, but also certain human resource practices such as selection, appraisal and communication. All but one of the sample firms have a worldwide work-force of at least 1000 employees. The exceptional case, Savings Bank, is closely integrated in the savings bank group (see Table 1).

TABLE 1  
Firms in the Sample and the Approximate Number of their German Work-force, 1993

<i>German companies</i>		<i>US subsidiaries</i>		<i>UK subsidiaries</i>	
Big Bank	60,000	US Branch Bank	4,000	UK Merchant Bank	1,000
Universal Bank	40,000	US Merchant Bank	300		
Regional Bank	15,000	US International Bank	200		
State Bank	5,000	US Investment Bank	100		
Cooperative Bank	2,000	US Commercial Bank	100		
Savings Bank	500				
Big Chemical	90,000	US Consumer Chemicals	9,000	UK Oil	4,000
Consumer Chemicals	20,000	US Chemical	3,000	UK Chemical	2,000
Big Pharmaceutical	10,000	US Oil	2,000	UK Pharmaceutical	1,500
Applied Chemicals	5,000	US Pharmaceutical	500		
Oil Company	5,000				
Pharmaceutical Firm	1,500				

Besides German-owned firms, UK and US companies operating in Germany comprise part of the sample. Foreign-owned firms were included as they are often more likely than indigenous firms to challenge national labour market institutions (Ferner 1994); therefore, their example should help to illuminate the pressures on the German system. This particularly applies to US multinationals, as they are renowned for deviating from national industrial relations and human resource practices (Chi-Ching and Keng-Choo 1995; Wever 1995).

The second aspect on which the firms in the sample deliberately differ is industry. The sample includes banks and chemical firms. One consideration that informed the choice of industry was that both consist of many US- and UK-owned firms. Another was that both industries differ in their exposure to international competition. The German chemical industry is a global industry with an export ratio of 54 per cent in 1994; in contrast, banking is a multi-domestic industry.

A third reason for examining banks and chemical firms is trade union organization. The chemical industry is dominated by the IG Chemie, an industrial union affiliated to the German Trade Union Federation (DGB). This union has organized about 45 per cent of all employees in the industry. Thus, union density in the chemical industry is higher than in Germany as a whole, where it is less than 40 per cent. The dominance of this trade union is also reflected by the fact that about 85 per cent of all works councillors in the chemical industry are members of the IG Chemie (Müller-Jentsch 1995: 63).

Differing from more radical DGB affiliated unions, such as HBV and IG Metall, the IG Chemie is a non-radical trade union (Markovits 1986). The relation between the IG Chemie and the employers' association of the chemical industry is described by both sides as one of 'social partnership' (*Sozialpartnerschaft*) (Kädtler and Hertle 1997). There is an extensive system of mutual information and consultation. Since 1971, there has been no strike action in the chemical industry. Today a compulsory arbitration procedure, agreed to by the collective bargaining parties in 1975, makes strike action in this industry very unlikely (Schlemmer 1988: 321). In contrast to chemicals and most other German industries, the banking sector is not dominated by a DGB affiliated union. There is strong competition between the DGB affiliated service-sector union HBV and the independent white-collar union DAG (Müller-Jentsch *et al.* 1995). Each of these unions represents only 10 per cent of the work-force. The relatively weak position of banking unions is also reflected in a significant number of works councillors not being organized in a trade union. Traditionally, there were hardly any strikes in German banks. This changed in the early 1990s when there were two major strikes. However, these showed that the combination of low density and union rivalry makes it difficult for banking unions to organize effective strike action.

A similarity between the banking and chemical industries is that employers are highly organized: 95 per cent of firms in these industries are full members of an employers' association. Although in theory they only have to guarantee union members the minimum terms and conditions of the collective bargaining agreement, in practice collective bargaining agreements in Germany generally apply for non-union members as well. Furthermore, as the non-organized employers are usually small or medium-sized firms, collective bargaining coverage in the two industries studied is more than 95 per cent. This is above the average for German industry as a whole which is about 90 per cent. The two industries studied offer a particularly stark contrast to the metal industry which features prominently in studies about German industrial relations. In the metal industry, the coverage of collective bargaining was traditionally less encompassing than in banks and in the chemical industry. Furthermore, over the last decade the percentage of metal employees covered fell from 74.4 per cent in 1984 to 66.3 per cent in 1994 (Schroeder and Ruppert 1996). A particular problem of multi-employer collective bargaining in the metal industry is its breadth, as it covers among other things shipyards, electronic manufacturers, car producers and computer firms. This makes it more difficult to find tailored solutions than in the more homogeneous banking and chemical industries.

Regarding the third German labour market institution discussed in this paper, initial vocational training, the training record of chemical firms is similar to the one of German industry. In contrast, over the last decade banks have had a significantly higher percentage of apprentices in their work-force. A further difference from chemical companies and manufacturing companies in general, which usually train apprentices in several

occupations, is that banks normally offer only an initial vocational training for 'bank clerks' (Muller 1996).

For the data collection, multiple sources of evidence were used. Most important were visits to each sample firm. In each organization the researcher interviewed at least one senior personnel manager and where possible a works councillor. Between autumn 1991 and autumn 1994, 97 face-to-face interviews, usually lasting between one and one and a half hours, were conducted. In addition, the researcher carried out 56 telephone interviews with the contact persons in the companies during the final stages of the research process to clarify any ambiguous responses. Given the objective and the aims of the study, an open, semi-structured interview style was used. Primary evidence in the form of company newsletters, works agreements and appraisal forms was a second source of information. A third one was secondary published data such as annual reports. The collection of information from different sources made it possible to validate the claims of the respondents (triangulation). For this purpose, I also interviewed 16 experts from consultancies, employers' associations, trade unions and other organizations. For each of the sample firms a case study was written. The reports were fed back to the key informants in each firm. The respondent validation helped to determine if the understanding of particular company facts and situations was correct.

The compliance of the sample firms and the future of the three main German labour market institutions will now be examined. Section 2 analyses collective bargaining, Section 3 workplace representation and Section 4 initial vocational training.

## **2. Multi-employer collective bargaining**

Multi-employer bargaining in Germany not only regulates wages but also defines terms and conditions such as weekly working hours, vacation days and overtime pay. (For a more detailed description, see Incomes Data Services 1996; Visser and Ruysseveldt 1996.) Two-thirds of the sample firms comply with the requirements of centralized collective bargaining. They are full members of an employers' association<sup>1</sup> and guarantee their work-forces the minimum terms and conditions of the collective bargaining agreement. It is important to note that this is not representative for the two industries studied. In banking as well as in the chemical industry, about 95 per cent of firms are organized.

### *The Avoidance of Centralized Collective Bargaining*

Three of the sample firms—Pharmaceutical Firm, US Oil and UK Oil—only partly comply with the requirements of the German system of centralized collective bargaining. They have a company agreement with the chemical union IG Chemie. These companies left the employers' association of the

chemical industry in the late 1960s and early 1970s, long before the current discussion about the viability of multi-employer bargaining. In contrast to US Oil and UK Oil, Pharmaceutical Firm negotiates only a remuneration agreement but entirely accepts the general framework agreement of the chemical industry. Although the salary level of the company agreement is lower compared with the industry agreement, job enhancements and bonuses included, Pharmaceutical Firm effectively pays more than the collective bargaining agreement foresees. The wage level and the terms and conditions set by US Oil's and UK Oil's company agreements are more favourable than those of the collective bargaining agreement of the chemical industry. From a management point of view, the advantages of company bargaining such as the inclusion of performance-related bonuses do not necessarily outweigh the costs of local bargaining. Among these are conflicts that are externalized by collective bargaining at the industry level. A senior human resource manager of US Oil reported that the works councillors in the negotiating commission sometimes reduce their demands only in return for concessions in works agreements. This explains why US Oil's management has considered rejoining the employers' association.

Five of the firms in the sample—US Merchant Bank, US International Bank, US Investment Bank, US Commercial Bank and US Chemical—are neither full members of an employers' association nor do they have a company agreement. The human resource managers of these firms claimed that they stay outside the employers' association in order to be flexible. 'Flexibility' for them means that merit increases can be below the increase negotiated for the industry and that they can use the performance-related reward systems of their parent company. In 1993 and 1994, US Chemical was able to decide to pay no merit increases at all, although tariff wages in the chemical industry increased. Besides pay, human resource managers of four of these firms also suggested that they want to be able to fix terms and conditions differently. However, in practice they comply with most terms and conditions set by the umbrella agreements of their industry. A major exception is working hours. At the end of 1993, US Chemical, US International Bank and US Investment Bank had a regular working week longer than that specified by the collective bargaining agreement of their industry.

None of the non-collective bargaining firms in the sample is cited in the academic literature or in the business press as an example of successful avoidance of centralized collective bargaining. A reason for this may be the limitations of a bargaining avoidance strategy. In addition to labour market pressures that make it difficult to undercut the terms and conditions that are standards in the industry, these limitations are the co-determination rights of works councils, the level of pay, and trade union pressure. First, the case of US Chemical shows that even a non-collective bargaining firm is not free to introduce its worldwide remuneration system in Germany because it needs the approval of its works council. In late 1993, management had been able to introduce the new system only in the headquarters, which has no

works council, and in two of the three plants. The works council of US Chemical's third German plant was still rejecting attempts by management to introduce the new system. It is interesting to note that US Chemical's human resource director suggested that most conflicts with the works council are about compensation and salary administration. In contrast, managers and work councillors in centralized collective bargaining firms mentioned working hours as the most critical point.

Second, one of the main criticisms of the German system of centralized bargaining is that it leads to high wages. The five non-collective bargaining firms in the sample pay higher wages than those set by industry-wide collective bargaining. In turn they have greater financial flexibility. Third, large companies that have no collective bargaining at all might come under pressure from trade unions to negotiate a deal. For example, in 1993 the Digital Equipment's German subsidiary was forced by a strike to accept a company agreement with the IG Metall. This could explain why with the exception of US Chemical all non-collective bargaining firms in the sample are relatively small.

### *The Future of the System of Centralized Collective Bargaining in Chemicals and Banking*

From the evidence presented so far, it seems that even for large firms it would be possible to switch from multi-employer to company-level bargaining. Nevertheless, none of those sample firms that were members of an employers' association was considering leaving their association. We also found no press accounts reporting such a move for any other firm in these industries. Nor did we come across reports about organized firms having negotiated concession agreements at the plant level that are unlawful, by lowering terms and conditions below the minimum level of the collective bargaining agreement. The percentage of employees working in commercial banks covered by industry-wide collective bargaining actually increased, from 92 per cent in 1980 to 97 per cent in 1995 (Arbeitgeberverband des privaten Bankgewerbes 1996: 37; own calculations). Although the evidence is clearly limited, in both industries the system of multi-employer bargaining does not seem to be threatened. This is a somewhat surprising result considering the current debate in Germany about the viability of centralized collective bargaining. However, this is mainly restricted to East Germany and the metal industry (Ettl and Heikenroth 1996; Hassel and Schulten 1997; Schroeder and Ruppert 1996).

Nevertheless, the chemical and banking trade unions have had to pay a price for the relative stability of multi-employer bargaining in their industries. First, in both industries employers have gained significant flexibility concessions in recent years. In the banking industry it has been agreed that weekly working hours are only an average which has to be achieved in a three-month period. Since 1996, with the explicit aim of saving jobs, it has become possible for management and works council to reduce



weekly working hours from 39 to 31 without pay compensation. In the chemical industry this 'regulated decentralization' of collective bargaining (Hassel and Schulten 1997) went even further. When working hours in the chemical industry were reduced to 37.5 per week in 1992, it was agreed that this is an average that has to be achieved in a 12-month period. In four of the nine chemical firms covered by collective bargaining, a significant part of the reduction of working hours was accomplished by an increase in annual leave. For example, in 1993 regular working hours per week were still 38.5 at UK Pharmaceutical and 40 at the UK Chemical plant surveyed. These examples show that firms that are covered by centralized collective bargaining can achieve a flexibility similar to that of a non-collective bargaining firm like US Chemical. Since 1994, chemical employers have gained even more far-reaching flexibility concessions. Most of these were unique and have had a pilot function for German industry. With the consent of the collective bargaining parties, weekly working hours can be fixed at between 35 and 40 hours. Chemical companies have also been allowed to recruit long-term unemployed and those finishing initial vocational training for less than the normal salary. Firms facing serious economic problems have the opportunity to reduce or scrap entirely the collectively agreed annual bonus if the works council and the collective bargaining parties agree. In 1996, in return for flexibility and wage increase concessions, employers promised that there would be no further reduction of total employment in the chemical industry, which sank from 593,800 in 1991 to 509,400 in 1995 (*Handelsblatt* 1996: 1), during the duration of the collective bargaining agreement. This was one of the first alliances for work at the industry level in Germany.<sup>2</sup> It is perhaps worth emphasizing at this point that, despite the flexibility concessions of the trade unions, centralized collective bargaining still constrains employers significantly in regard to pay and other terms and conditions (Muller 1996).

Second, a high and growing exempt ratio is another factor that may contribute to the relative stability of the central bargaining system in the two sectors studied. All those employees who earn significantly more than the highest base salary prescribed by the collective bargaining agreement are exempt (*Außertarifliche Angestellte*). (In 1996 in both industries this threshold was about 85,000 DM per year.) Over the last decade the proportion of those exempt has grown by more than a quarter in both industries; by 1994, 13.3 per cent of chemical employees and 19.1 per cent of employees in commercial banks were exempts (Bundesarbeitgeberverband Chemie 1995: 16–17; Arbeitgeberverband des privaten Bankgewerbes 1995; own calculations). As this group is outside the scope of the central remuneration agreement, employers have more autonomy in exempt pay (Muller 1997). Trade unions in both industries have demanded the introduction in the collective bargaining agreement of wage classes that are above the highest job grades negotiated to date, but employers have not conceded to these demands yet (Arbeitgeberverband des privaten Bankgewerbes 1994: 12; Förster and Hausmann 1993: 788).

In conclusion, it seems that, in both the chemical industry and the banking sector, most employers still comply with the system of central collective bargaining. The example of some US firms in the sample shows that, at least for small and medium-sized firms, it is possible to avoid collective bargaining. However, they do not seem to provide a model for other firms in these industries. Nevertheless, although centralized collective bargaining coverage is still high, this labour market institution has become somewhat weaker. There has been a decentralization of employment regulation from industry bargaining to company or establishment level bargaining and more employees are no longer directly covered by collective bargaining agreements. This development is not necessarily negative. It can be interpreted as the development of a more articulated bargaining system (Adams 1995: 76) or 'a new synthesis between pressures for coordination and those for decentralisation' (Crouch 1996: 358).

### **3. Workplace representation**

With regard to multi-employer bargaining, German employers usually have a choice of joining an employers' association or not. In this respect it differs from workplace representation. The Works Constitution Act specifies that works councils can be elected in all establishments with at least five employees. In contrast to the United States, where a majority of employees have to vote for union recognition, Germany needs only a small number of determined employees to initiate the installation of a works council.

It is estimated that more than 70 per cent of German employees are represented by works councils and a further 15 per cent by a comparable institution in the public sector (Niedenhoff 1989). These bodies have co-determination rights regarding, for example the 'commencement and termination of the daily working hours' and the 'fixing of job and bonus rates and comparable performance-related remuneration' (Works Constitution Act, Section 87). When co-determination rights apply, management has to get the approval of works councils before it can implement any change. (For a more detailed description of the German system of workplace representation see Baethge and Wolf 1995; Müller-Jentsch 1995; Visser and Ruysseveldt 1996.) Compared with similar bodies in other European countries, German works councils have a fairly sizeable influence on organizational decisions (Gill 1993; IDE 1993).

Four of the firms in the sample—US Merchant Bank, US Investment Bank, US Commercial Bank and US Pharmaceutical—do not have a works council. US Chemical and US International do not have works councils in all their major establishments. When the human resource managers of these firms were asked why they did not have works councils in all or some of their establishments, they claimed that their employees had not felt the need to establish such a body. Two of the managers suggested that the non-existence of a works council has advantages. The human resource manager of US

International Bank, who has to deal with a works council in one of the bank's five establishments, said that he has to spend a lot of time and energy dealing with this council. According to US Investment Bank's human resource manager, a works council would delay organizational change; this would create tensions, as rapid decision-making is a pivotal element of the bank's American culture. However, medium and large-sized firms can hardly follow a non-works-council strategy. More than 90 per cent of all private-sector firms in Germany with more 200 employees have a works council (Mendius and Semlinger 1991). According to our information, US Merchant Bank, which has 300 employees in Germany, is the biggest foreign-owned bank with no works council. Hence, as long as there are no legal changes, there will be no convergence to US employment practices in this area.

At present no major legal changes to the German system of workplace representation are being discussed. Nevertheless, if there were a strong feeling by employers against it, and if it could be shown that this labour market institution severely disrupts the smooth running of operations, the system would come under pressure. Therefore, it is interesting to mention that, although some managers in the sample firms complained about works councils delaying or preventing change, most interviewees, managers and works councillors alike, described the industrial relations climate in their company as one of high trust. These claims were supported by complementary evidence. For example, the conciliation committee (*Einigungsstelle*), the last resort that employee representatives have in disputes with management, is hardly used in the sample firms. In company publications such as annual reports, statements were frequently found of management acknowledging that it co-operates with employee representatives. The 1995 annual report of Big Bank, for example, stated: 'We also thank the works councillors and their bodies... for the trustful co-operation and the willingness to work constructively at the solution of problems' (translation by the author).

We frequently came across examples of employee representatives demanding changes on issues where they had co-determination rights. For example, in one firm they secured better terms and conditions for the staff of a canteen when subcontracting was introduced; in another firm, the central works council agreed to the introduction of an assessment centre for management development purposes, but prevented management from using it as a selection device. Usually, works councils did not entirely block initiatives of change by management. Often they were even prepared to give up some of their rights. This impression is supported by the 1987 Industrial Democracy in Europe (IDE 1993) study. In-depth interviews in selected firms found that the actual influence of German works councils was significantly lower than their legally prescribed involvement in organizational decisions. In contrast, in five of the eleven other surveyed countries, the actual influence of representative bodies at the establishment level was higher than their *de jure* participation.

Concerning the future of workplace representation in Germany, the transfer of bargaining functions from the industry level to works councils has already strengthened and will further strengthen the position of works councils. When weekly working hours in the chemical industry, for example, were reduced from 39 to 37.5 hours in 1992, it was left to local management and works councils to negotiate how work should be reorganized to meet this target. Therefore, during the visits to chemical firms in the second half of 1992 human resource managers were busy working out schemes most appropriate for their establishment and negotiating them with their employee representatives. As a result of collective bargaining decentralization, the position of German works councils is today much stronger than in the past (Müller-Jentsch 1995). Nevertheless, there is an expectation that new forms of work organization could lead to new forms of direct participation which could supplement or even replace interest representation by the works council (Müller-Jentsch and Sperling 1995; Wächter 1992; Wever 1995).

All in all, there is a stronger compliance with the requirements of workplace representation than with industry-wide collective bargaining. This is not surprising, as legal requirements make it almost impossible, at least for medium and large-sized firms, to avoid this labour market institution. Hence, in the absence of legal changes, a convergence to unitarist industrial relations practices is unlikely to occur in this area.

#### **4. Initial vocational training**

Each year several hundred thousand young people enter training schemes in the areas of administration, service, craft and manufacturing for a period of usually three years. (For descriptions of the German system of initial vocational training see Cantor 1989; Géhin and Méhaut 1995; Steedman 1993.) At the end of 1995, 1,579,750 young people in East and West Germany were taking part in such initial vocational training (Bundesministerium für Wirtschaft 1996: 171). Two-thirds of the firms in the sample comply with the requirements of initial vocational training; at the end of 1992 their apprentice ratio was at least 3 per cent and therefore significant. One-quarter of the sample firms partly complies, since they employ apprentices albeit less than 3 per cent. It is worth noting that, whereas almost all German-owned firms comply, a majority of the foreign-owned firms comply only partly. Three foreign-owned firms—US International Bank, US Investment Bank and US Commercial Bank—have no apprentices at all. Why do they not comply?

Employment size can hardly be a reason, as survey evidence shows that more than 80 per cent of banks operating in Germany in this size group have apprentices (Mendius and Semlinger 1991). From the interviews conducted in these banks, three reasons emerged. First, in contrast to the other companies surveyed, US International Bank, US Investment Bank and US

Commercial Bank put a high emphasis on numerical flexibility. This means that it would be more difficult for them to recoup the money invested on initial vocational training; thus, it is cheaper for them to poach young employees with vocational training from indigenous banks and, if necessary, provide them with a job specific training. Second, these banks have difficulties meeting the requirements in the training regulations for the occupation 'bank clerk' (*Bankkaufmann*). These regulations make it compulsory that apprentices have on-the-job training in areas such as securities, savings accounts and mortgages. Only universal banks which are common in Germany can easily offer such comprehensive training. As the three non-vocational training banks specialize in certain types of business only, they are not able to train apprentices in all types of task demanded by the training regulations. Third, a further reason may well be headquarters' influence. In some of the foreign-owned firms that train apprentices, managers reported that lengthy discussions with their parent company were necessary before they were allowed to employ apprentices. This could explain why, compared with the German-owned sample, foreign-owned subsidiaries in general comply less with the requirements of initial vocational training.

In contrast to the three US banks, all other sample firms have apprentices. One reason for this is a demand for the qualification provided by this training. In the absence of more detailed company data, data from both industries indicate that this demand has increased in recent decades. Between 1962 and 1987, the percentage of blue-collar workers in the chemical industry who had an initial vocational training qualification in the occupation they were working in increased from 25 to 39 per cent. For white-collar workers it rose similarly from 22 to 37 per cent (Veba 1988: 14). Thus, even for jobs that were traditionally occupied by unskilled and semi-skilled workers, a vocational training qualification has become an entrance requirement (Kühnlein and Kohlhoff 1991: 123). In savings banks, which employ about one-third of all German bank employees, the percentage of employees with an initial vocational training qualification increased from about 70 per cent in 1970 to about 90 per cent in 1994 (Deutscher Sparkassen- und Giroverband 1995: 73). However, some banking experts are suggesting that changing business strategies will lead to a less qualified work-force in banks (D'Alessio and Oberbeck 1997; Sperling 1996). In some of the sample firms, we observed trends that support this assessment. Savings Bank was planning to recruit externally counter staff who have no initial vocational training qualification in order to save costs. Regional Bank has founded an independent subsidiary in East Germany that provides only a few banking services and for which sales skills were a more important recruitment criterion than a vocational training qualification.

### *The Future of the System of Initial Vocational Training*

Although apprentice ratios in Germany are still high by international

standards (Gospel 1994: 512), they have declined significantly over the last decade. In many of the sample firms the apprentice ratio, i.e. the number of apprentices as a percentage of the total work-force, fell by more than a quarter. Between 1985 and 1995 the apprentice ratio in the chemical industry fell from 5.5 to 3.9 per cent and in commercial banks from 9.0 to 6.3 per cent (Bundesarbeitgeberverband Chemie 1995, 1996; Arbeitgeberverband des privaten Bankgewerbes 1986, 1996). A similar decline can be observed in West German industry, where the ratio sank from 6.9 per cent in 1985 to 4.5 per cent in 1995 (Bundesministerium für Wirtschaft 1996: 12, 171; own calculations). Even if one takes into account the fact that the mid-1980s were exceptional, since considerable public pressure was exerted on firms in Germany to commit additional resources to initial vocational training in order to reduce youth unemployment, the German system of initial vocational training seems to be in deep crisis. However, this assessment may be too pessimistic.

With the exception of two managers in US subsidiaries, none of the managers interviewed questioned the viability of the initial vocational training system. This observation is supported by a more representative 1993 survey of 300 large firms: 95 per cent of the respondents claimed that initial vocational training is and will remain an irreplaceable and indispensable part of their company's human resource policy (Bundesministerium für Bildung und Wissenschaft 1995: 46–7). Furthermore, since the mid-1990s there has been renewed political pressure on companies operating in Germany to take on apprentices. As in the 1980s, the German government, employers' organizations, trade unions and the media are trying to persuade companies to increase their initial vocational training efforts and thus to alleviate the acute shortage of training placements in eastern Germany and some parts of western Germany. The main threat used to persuade employers is to impose a training levy on those firms that do not offer enough initial vocational training (Bundesministerium für Bildung und Wissenschaft 1994: 25). This pressure has already had some success. In several industries, among them banking and chemicals, employers have committed themselves in collective bargaining negotiations to offer more initial vocational training (*European Industrial Relations Review* 1997). Whereas the number of young people starting an initial vocational training fell constantly in the early 1990s, it increased from 566,000 in 1994 to 573,000 in 1995 (*Frankfurter Allgemeine Zeitung* 1996a: 13). In the chemical industry, an increase of 13 per cent was achieved (*Handelsblatt* 1996: 1).

Nevertheless, a serious threat to the German system of initial vocational training is a long-term increase in graduate employment (Wächter 1992: 335).<sup>3</sup> In the chemical industry, the percentage of employees with a university degree increased from 4.3 per cent in 1982 to 7.0 per cent in 1994 (Bundesarbeitgeberverband Chemie 1995: 16–17). Graduate employment in banks has increased even more; for example, the graduate ratio of Regional Bank increased from 6.2 per cent in 1985 to 16.1 per cent in 1995. The employers' association of private banks estimates that over the last

25 years the ratio between the recruitment of apprentices and the recruitment of graduates changed from 40:1 to 8:1. Whereas in the past graduates were usually recruited only as junior managers, today they can also be found in non-managerial positions (Arbeitgeberverband des privaten Bankgewerbes 1995: 28). Hence it appears that the increase in the availability of other forms of education and training may have an effect on apprenticeship uptake.

All in all, the majority of sample firms still comply with the requirements of initial vocational training. The renewed public pressure on companies to improve their initial vocational training record suggests that there is still a widely shared consensus in Germany about the benefits of this system. Therefore it seems that, at least in the short term, the system of initial vocational training does not seem to be threatened. Nevertheless, the growth in graduate employment could threaten the long-term viability of initial vocational training in Germany at least to some extent.

## 5. Summary

This paper set out to determine whether banks and chemical firms in Germany still comply with the requirements of the three key labour market institutions of centralized collective bargaining, workplace representation and initial vocational training. The empirical analysis revealed that not all firms do so. Although the German institutional environment is relatively strong, the example of some of the sample firms shows that it leaves at least some room for manoeuvre. The biggest challenge to the German system appears to come from the US-owned firms in the sample. More important than the deviant behaviour of some of the firms, however, is the fact that the majority of companies in the sample still do largely comply with the requirements of collective bargaining, workplace representation and initial vocational training. Of those firms that do not comply, most have not done so for a long time.

The analysis of the future of centralized collective bargaining, workplace representation and initial vocational training in the banking and chemical industries in Germany indicates that the regulatory influence of initial vocational training and multi-employer bargaining has become somewhat weaker. Nevertheless, none of these institutions seems to be seriously threatened in the near future. Despite the current debate about the viability of collective bargaining in eastern Germany and the metal industry, other German experts have also pointed to the stability of the German system (cf. Inagami 1996; Müller-Jentsch and Sperling 1995; Sadowski *et al.* 1995; Streeck 1996). This stability is surprising, considering the growing competitive pressures on German companies and the radical changes that similar institutions have gone through in other countries. A reason for this institutional resilience is that the institutional framework has so far been flexible enough to accommodate new pressures. Until now changes have

largely been within the system. Only if the competitiveness of German industry significantly decreases may a radical convergence towards US employment practices or some other system or hybrid be expected.

In sum, it appears that there has been no transformation of the German system of industrial relations. Although there has been some decentralization of collective bargaining issues, a non-union sector has not emerged so far. Organizational autonomy is still significantly restricted by German labour market institutions. Germany has not gone down the route of other countries such as the UK and the USA, where there has been a shift from pluralist towards more unitarist employment practices. Hence the case of Germany does not support a convergence thesis, and instead points to the existence of different systems of labour management.

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### **Notes**

1. For quite some time, the employers' association of private banks has been offering a guest membership. Guest members such as US Commercial Bank are not bound by the collective bargaining agreements negotiated by the association, but do not have access to the full service of the association. The employers' association of the chemical industry offers no guest membership at all.
2. In the meantime, other industries have followed the path towards regulated decentralization of collective bargaining (*European Industrial Relations Review* 1996). In order to prevent the demise of multi-employer bargaining, the leader of the German Trade Union Federation (DGB), Schulte, has recently demanded an even more radical and widespread opening of collective bargaining for firm-specific solutions (*Süddeutsche Zeitung* 1997: 2).
3. Many German graduates, particularly those with a business administration degree, have done initial vocational training prior to university. Nevertheless, it is unusual for people with a university degree to be accepted as apprentices.

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